



Utilities Privatization Third Party Financing



Presented by Steve Gustafson

CoBank, ACB

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Agenda

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- **Schofield Barracks Summary**
- **Contractor - Schofield Barracks**
- **CoBank - Third Party Lender**
- **Project Finance Structure**
- **Schofield Barracks Financing Structure**
- **Credit Enhancement**
- **3rd Party Financing Advantages**



Schofield Barracks Summary

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- **4 MGD Wastewater Plant and Collection System**
- **Contractor Required to Upgrade Treatment Plant to R1 Standard (Effluent can be used to irrigate agricultural crops and nearby golf courses)**
- **Initial Capital Upgrades Approximated \$9 Million**
- **2-Year Construction Period**
- **No Recoverable Portion of Purchase Price Financed**
- **3 Bidders for the System**



Contractor - Schofield

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Barracks

- **Operates 23 systems in HI**
- **Operates 3 of the 4 existing R-1 wastewater treatment plants in the state**
- **Excellent reputation with Department of Health and other regulators**
- **Partnered with reputable engineering firm, construction company, other consultants**
- **Sound business plan (budget)**
- **Financial Capability - Needed 3rd Party Financing**



CoBank – Third Party Lender

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- **Chartered by Congress - Serve nationwide**
- **Government Sponsored Enterprise (Farm Credit)**
- **Source of Funding - Wall Street (AAA Rating)**
- **Cost of Funds are .25% to .85% over Treasury depending on maturity (1 month to 30 years)**
- **Cooperative - Share profits with Borrower/Government (.5% reduction in debt cost)**
- **15 years of Water and Wastewater Lending**
- **25 years of Electric and Power Generation Lending**



Project Finance Structure

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- **Tailor the loan to the project structure (contracts)**
- **Credit is evaluated on the strength of the contract and the strength of the contracting parties**
- **Contracts are assigned to the lender for collateral**
- **Cash is controlled by the lender with reserve requirements to be funded monthly to mitigate risk**
- **Assurance of payment from the contractor and/or government to the third party lender may be required and should result in lower interest costs**



Schofield Barracks Structure

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- **Repayment tailored to government contract**
- **Contractor contributed 10% (equity) and CoBank loaned 90% of cost of Initial Upgrades**
- **2-year Construction Loan, 15-year Term Loan, LOC**
- **Term Loan - Option to Fix Rate - 180 equal monthly payments if Army elects deferred payment**
- **Army provides assurance to repay principal, interest and funding loss upon contract termination**



Credit Enhancement

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- **Objective is to match risk, reward and resources**
- **Assurances (guarantee) may be provided from the contractor or the government**
- **Credit enhancement may be required under special circumstances**
- **Termination provisions for cause or convenience are a significant concern for 3rd party lenders**
- **Bankers want to collect all principal and interest due and not suffer funding losses associated with prepayment of fixed rate loans if contract is terminated**



3rd Party Financing

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Advantages

- **Interest rate on debt is normally lower than required return on equity**
- **The more debt used to finance initial upgrades will lower the weighted average cost of capital**
- **Initial upgrades financed by 3rd party allow for immediate upgrades to systems which can be repaid over a long term - 15 to 30 years**
- **If 3rd party financing is available, more contractors may be able to bid on projects**
- **Additional due diligence by 3rd party lender**



Questions?

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Steve Gustafson

Vice President

(303) 740-4310

sgustafson@cobank.com

David Dornbirer

Vice President

(303) 694-5848

ddornbirer@cobank.com